

The Development Strategies and Targets of China's State-Owned Enterprises

Liu Wenlong - Chief Economist
China National Petrochemistry Group Corporation
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Nowadays, the economic relations among countries are getting closer and closer in the world, and the science and technology is changing day by day. The globalization of economy, science and technology, and the integration of the world markets have become the inevitable trends. China is becoming a part of the global market; for many commodities, the seller's market is changing into a buyer's market, the deficient economic times have passed away and it has become a common phenomenon that supply exceeds demand; the international competition is becoming more and more intense.

The original system and operation mechanism in China's petroleum and petrochemistry industries could no longer meet the needs of the construction of the socialist market economy with the Chinese characteristic and the building up of the state-owned enterprises, nor could they adapt to the international trend. The state decided to reorganize the former China National Petroleum and Natural Gas Corporation, China National Petrochemistry Corporation, and the petroleum companies in the provinces and municipalities so as to realize the transformation from the planned economic system to the socialist market economy system, and from the extensive management to the intensive one as soon as possible, to increase the economic benefits and overall strength of the petroleum and the petrochemistry industries, and to raise the competitive and controlling power of the state-owned enterprises in the market. In July, 1998, two large group corporations, petroleum and petrochemistry, formally came into being.

A. Brief Introduction to the Newly Formed China National Petrochemistry Group Corporation (CNPGC)

These two group corporations are reorganized basically according to the region. Most of the business of CNPGC is in the south of China, including 19 provinces, municipalities, and autonomous regions, which are comparatively developed areas in China. The oil products and petrochemical ones are in great demand here, and its consumption accounts for over 70% of the total number in the country.

In CNPGC, there are 89 petroleum, petrochemistry, and marketing sole enterprises, holding enterprises, and enterprises and institutions which are directly subordinated to CNPGC and in charge of scientific research, designing, construction, and education. Its main business involves the exploration and exploitation of the oil and gas resources both at home and abroad, petrochemistry, the cooperation with foreign enterprises, outward and inward investments and financing services, construction, and many other diversified services.

The total assets of CNPGC are 381 billion renminbi yuan and the income from sales is 327.4 billion yuan. The output of crude oil is 36 million tons, the crude-

distillation capacity is 117.94 million tons, the ethylene capacity is 2.2 million tons, and the capacity of the synthetic fiber raw materials is 2.02 million tons, which amount to 22.5%, 52.1%, 55%, and 67% of the national ones respectively. At the same time, CNPGC has a marketing network of the finished oil across 19 provinces, municipalities, and autonomous regions.

Compared to the Petrochemistry Corporation before the reorganization, CNPGC is more market-oriented and more internationalized. It has 4 main characteristics. **First of all, the enterprise no longer needs to carry on the governmental functions.** It is an entity of a legal person which is independent in management, and assumes sole responsibility for its profits and losses with self-development and self-restraint. **Secondly, the upstream and downstream businesses, the domestic and the foreign trades, the production and the marketing are integrated.** The state has entrusted to CNPGC full managerial decision-making power, so it can closely combine the petrochemistry with the prospecting and exploitation of petroleum, the production with the marketing, the domestic trade with the foreign one, thus realizes the optimum distribution of the productive elements. **The third characteristic is that CNPGC can make the most of its advantages.** It has kept its feature and superiority in petrochemical production and technology, and, at the same time, has added the exploration and exploitation of petroleum and gas, and the wholesale and retail services of the finished oil. **Fourthly, the relationship between CNPGC and its sole enterprises and holding enterprises is that of "parent-daughter companies" linked with the internal capital.** In accordance with the principle combining the centralization and the division of power, CNPGC implements a system of "parent-daughter companies and three centers" at the present stage, that is, CNPGC is the policy-making center of such important managerial activities as capital running, investment and financing, technological development, the foreign trade, and economic and technological cooperation with foreign enterprises; the sole enterprises and the holding enterprises are the profit center, the independent accounting units under the unified management, planning, and guidance of CNPGC; the subsidiary productive factories, oil-gas fields and grassroots units under the sole enterprise and the holding ones are the internal cost controlling center.

B. Targets of Reform and Development of CNPGC

CNPGC has set its immediate objective and the long-term objective according to the requirement of the development of the market economy.

Immediate Objective. After 3 years' further reform, reorganization, transformation, and reinforcement of management, the modern enterprise system should have been tentatively set up in 2000. Through the structural adjustment and technological transformation in resources, products, marketing, technology, investment, enterprise, and assets, the developing way should be changed to intensive management, and a petrochemical industry full of vitality will step into the 21st century.

Long-Term Objective. In accordance with the state requirement that the petrochemical industry should be built into one of the pillar industries in the national economy, CNPGC should have developed into a transnational corporation that can contend with the foreign ones and has strong competitive power in the international market in 2010 or so. The key in the development is to increase the processing

capacity of the imported crude oil relying on the existing refineries in the southeastern coastal areas. In about 2010, CNPGC should own the ability to offload, process, and market 100 million tons of imported crude oil. Several large-scale ethylene projects should be newly built on the basis of the further transformation of the existing equipment and with the arrangement of the imported crude oil processing in consideration. The ethylene capacity should reach 7 million tons in 2010.

C. Development Strategies of CNPGC

In order to achieve the above goals, CNPGC has laid down and implemented 5 development strategies according to the new pattern of "3 aspects of integration" and the new guiding idea of joining the competition in the domestic and international markets.

Resource Strategies. Firstly, CNPGC will make great efforts to increase the output of the crude oil with stable yield and to strengthen the exploration and exploitation of petroleum and gas fields. Secondly, these two kinds of petroleum resources at home and abroad should be taken into consideration as a whole and planned accordingly. CNPGC will optimize the resource distribution and adjust the direction of the crude oil flow, that is to say, the crude oil produced in China should be processed by the inland factories, and the imported one mainly in the coastal areas. The auxiliary construction of the storage and transportation equipment should be quickened, and the pattern of the refinery industry be adjusted. Furthermore, CNPGC should be active in establishing direct, long-term, stable and diversified cooperative relations with the petroleum companies in the oil-producing countries, especially those in the Middle East.

Investment Strategies. First of all, the way of economical growth should be changed from the extensive type to the intensive one. Secondly, the upstream and downstream industries should be combined closely and repeated constructions should be avoided to increase the overall competitive power of the group in accordance with the overall development strategy of CNPGC. What is more, the investment should be oriented at the technological transformation, the improvement of the technological content of the product, and the domestic absorption of foreign technology mainly with the fund of its own. Furthermore, the policy-making principle is that the project should have market, economic benefits, capital, and competitive power, and that never should the Corporation make insufficient investment nor beforehand one. The fifth point is that the environmental protection and the long-term strategic development should be paid great attention to, and that the industry should become more diversified and more specialized to lay basis for a pillar petrochemistry in 2010.

Marketing Strategies. Firstly, combine the upstream and the downstream industries to propel the structure adjustment inside the group and to realize the large-scale, specialized, serialized and intensive management. Push on the combination of production with marketing, develop the marketing of the finished products and enlarge the market share. Secondly, products with distinguishing features and unique services should be come into being with the famous-brand products as the lead, technological development as the core, and several joint enterprises or specialized companies should be organized with product marketing as the link. Lastly, the strategy of diversified market should be carried on to expand the share in the domestic market and open up the international market and advance toward the transnational operation with excellent services and products of high quality, good varieties, low costs, and high returns.

Technology and Personnel Strategies. First of all, we must stick to the principle of “doing something and leaving something undone”, concentrate on developing the key technology, the unique one and the auxiliary one, strengthen the applicable basic study and the searching study of new and high technology, strengthen the close combination of the technological development with the engineering designing, and speed up the turning of the research achievements into productive force. The second point is to make full use of the research forces both at home and abroad and expand the cooperation and exchange in the field of science and technology, raise the starting point in research and realize the leaping in the technological development. Thirdly, CNPGC should attach great importance to the fostering and utilization of qualified personnel, and explore actively and establish an impelling mechanism that is good for the use and growth of talented people to improve the overall quality of the staff.

Management. CNPGC is to reform and reorganize the system and the operating mechanism and improve efficiency so that the Corporation can build up the modern enterprise system and become a transnational one.

D. Expediting the Cooperation with Foreign Enterprises, and Realizing the Target of Transnational Management

In order to speed up the step toward transnational management, and to carry through the opening policy, we positively explore many sorts of cooperation on the principle of being mutually beneficial, complementary and developing together.

In the aspect of the prospecting of the petroleum and gas resources, we are to cooperate with foreign enterprises to explore and exploit the petroleum and gas resources in China, and at the same time, we will take part in the exploitation of the overseas petroleum and gas resources progressively.

In the aspect of the refinement of oil and petrochemistry, the cooperation should be gradually expanded from the single petrochemical project to the large-scale refinery transformation and ethylene projects. At present, we are negotiating with the foreign enterprises about 4 large-scale petrochemical projects: one is the construction of an ethylene project with BASF in Nanjing, one is to build an ethylene project with BP in Shanghai, one is an integrated project of oil refinement and ethylene with EXXON and Saudi Aromco in Fujian, and the other is to construct an ethylene project with pool capital with DOW Chem in Tianjin.

Above is an introduction to the development strategies and targets of the China National Petrochemistry Group Corporation. I earnestly hope that you will offer your valuable suggestion.

Thank you!